



# WEEKLY ECONOMIC DIGEST

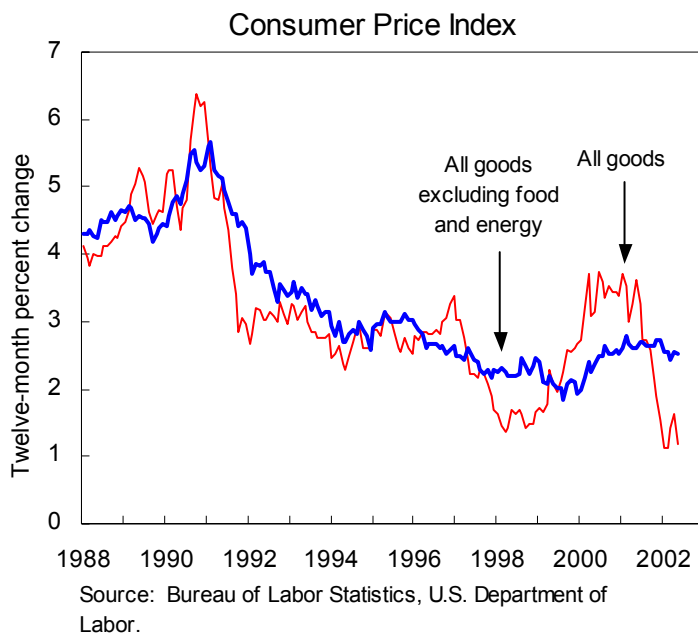


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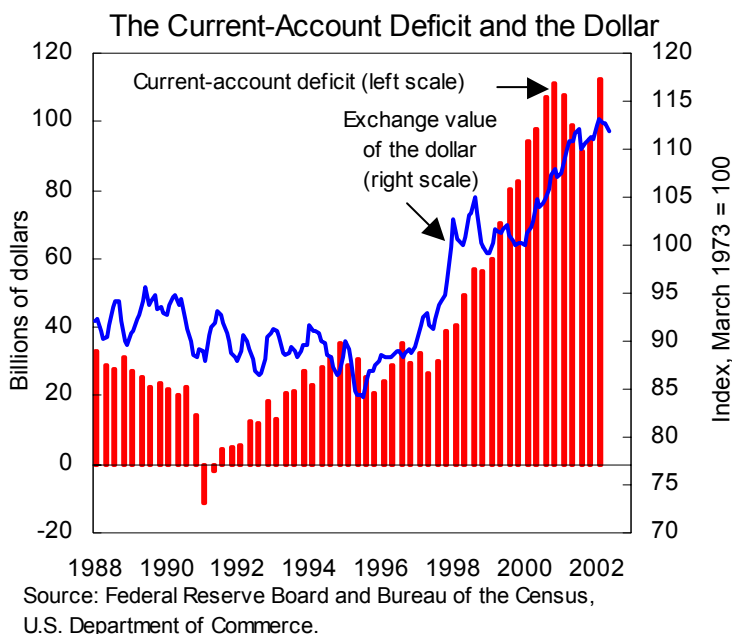
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

June 25, 2002

## Stable Inflation Makes the Fed Unlikely to Alter Rates



- **Consumer prices held steady in May.** The consumer price index (CPI) was flat last month, as declines in food and energy prices offset a modest increase in the core rate of inflation (a measure that excludes the effects of changes in food and energy prices). The 0.7 percent decline in energy prices last month followed a pair of strong increases in March and April. The core CPI rose 0.2 percent in May, in line with its average monthly increase over the past year. The core CPI was 2.5 percent above its level last May.
- **The trade deficit swelled in April.** The latest data show that exports grew by 2.2 percent in April but imports surged ahead at a 4.7 percent pace. As a result, the trade deficit for goods and services rose to \$35.9 billion. Imports of automotive and other consumer goods rose 5.2 percent, mirroring the strength of consumer demand in April. But retail sales fell in May, raising the possibility that import growth may have weakened as well.



- **The current-account deficit grew in the first quarter.** The current-account deficit, which reflects not only goods and services but also international income flows, increased to a record \$112.5 billion in the first quarter, according to preliminary estimates by the Department of Commerce. The rise in the current-account deficit since 1996 has coincided with a rise in the value of the dollar. Since the end of the first quarter, the dollar has declined somewhat. In time, a declining dollar makes U.S. exports more attractive and raises import prices.
- **The Federal Reserve is unlikely to change rates.** Although a falling dollar is a potential inflationary threat, current consumer price inflation is subdued. Moreover, economic growth has moderated in the second quarter. Thus, the Fed is unlikely to change its target for short-term interest rates at this week's meeting.

<b>Economy At A Glance</b>	May	Apr	Mar	Feb	2002 Qtr 1	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001	2000
<b>Economic Activity</b>										
Real GDP (% growth)*					5.6	1.7	-1.3	0.3	1.2	4.1
Industrial Production (% growth)	2.4	3.7	4.9	4.9	2.8	-6.7	-4.7	-5.9	-3.9	4.5
Capacity Utilization (Level, %)	75.5	75.4	75.3	75.0	75.1	74.7	76.2	77.4	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.8	6.0	5.7	5.5	5.6	5.6	4.8	4.5	4.8	4.0
Housing Starts (Thousands)	1733	1555	1644	1788	1715	1573	1603	1624	1603	1569
Real Disposable Personal Income* (% growth)		-0.9	2.2	7.0	13.8	-8.1	12.3	2.4	3.6	3.5
Retail Sales (% growth)	-10.1	15.0	-1.1	6.8	-2.4	12.9	-0.9	4.1	3.8	6.7
Personal Saving Rate (Level, %)*		2.8	3.0	2.8	2.9	0.4	3.8	1.1	1.6	1.0
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)	0.0	6.2	3.7	2.4	1.4	-0.3	0.7	3.1	2.8	3.4
Core CPI-U Inflation (% growth)	2.4	3.7	1.2	3.7	2.3	2.7	2.7	2.4	2.7	2.4
Compensation per Hour (% growth)					3.6	4.2	3.7	4.0	4.1	4.5
Output per Hour (% growth)					8.4	5.5	1.1	2.1	1.9	3.3
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)*	1.7	1.7	1.8	1.7	1.7	1.9	3.2	3.7	3.4	5.8
T-Note Rate, 10-years (Level, %)*	5.2	5.2	5.3	4.9	5.1	4.8	5.0	5.3	5.0	6.0
Federal Funds Rate (Level, %)*	1.8	1.8	1.7	1.7	1.7	2.1	3.5	4.3	3.9	6.2
Dow Jones Industrial Avg (Index Level)*	10080	10165	10501	9891	10105	9641	9934	10669	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

#### Upcoming Economic Releases:

- **Federal Open Market Committee** [Tuesday and Wednesday, June 25-26, 2002]
- **Durable Goods Orders, May** [Release: Wednesday, June 26, 2002]
- **Gross Domestic Product, First-quarter 2002 (Revised)** [Release: Thursday, June 27, 2002]
- **Personal Income and Spending, May** [Release: Friday, June 28, 2002]